

Preliminary Comments on the Draft ICANN FY14 Operating Plan and Budget

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These preliminary comments are submitted by Paul Diaz, Tim Switzer and Chuck Gomes in their personal capacities. They do not necessarily represent the views of their employers or the views of the Registries Stakeholder Group (RySG). The RySG plans to submit officially approved comments later in the comment period. The purpose of submitting these comments early is twofold: 1) to get some answers to some questions before the RySG comments are finalized; 2) to allow more time for consideration of issues before the budget is finalized.

We first want to communicate thanks and appreciation of the huge amount of time and effort that ICANN staff has committed in migrating to new financial systems, entering very large amounts of data and producing the draft plan and budget. We look forward to contributing to the budget process in this cycle and to continuing improvements to the process in the future.

Unless otherwise noted, the comments are organized by the slide numbers of the Draft ICANN FY14 Operating Plan and Budget, which can be found at <http://www.icann.org/en/news/public-comment/op-budget-fy14-10may13-en.htm>.

Slide titles marked with a **blue asterisk (*)** contain some requests/questions for which we request responses as soon as possible because the responses may assist the RySG in finalizing its comments.

Slide 14, FY13 Forecast vs. FY13 Published Budget

The FY13 forecast shows \$18,008,000 for historical development costs. It is our understanding that the plan is to deposit these funds into the ICANN Reserve Account. Has that happened for any of the funds; if so, how much? When will the full amount of the funds be deposited into the Reserve Account? Has ICANN settled on a target for the Reserve Fund? Clarity on this figure, and ICANN's progress on reaching it, would be appreciated.

Please explain the nature of the "Bad Debt Expenses." While FY13 FORECAST OF \$573,000 may not be a significant percentage of the overall Budget, IT IS A VERY LARGE INCREASE (43.3%) OVER THE FY13 BUDGETED AMOUNT. What is driving it? Importantly, what does ICANN intend to do about resolving it?

Slide 15, FY13 Forecast vs. FY13 Published Budget – Revenue

We note that the FY13 forecast shows that fees paid to ICANN from gTLD registrants via registries and registrars account for \$72,687,000 of ICANN's revenue, which represents approximately 95.1%. In other words, gTLD registrants funded the overwhelming majority of all ICANN activities in 2013 including subsidization of SOs and ACs besides the GNSO as well as all of ICANN's strategic programs. In the past, the Operating Plan and Budget contained

charts that estimated how revenue and expenses compared ICANN organizations. The RySG thinks that that is still a good idea because it shows:

- How gTLD registrant fees contribute to the overall ICANN community
- gTLD registrants how much of their fees are used to support gTLD related activities
- GNSO participants what programs they subsidize through registration fees
- Other organizations an estimate value of the services they receive from ICANN
- Other ICANN organizations the amount of subsidization they receive from gTLD registration fees.

It also is a way for ICANN to become transparent with the source and output of funds. If there is some reason why transparency is not appropriate in this area, the RySG would like to understand what that is.

Slide 19, FY14 Draft Operating Plan & Budget vs. FY13 Forecast

The RySG would first of all like to thank the ICANN Finance Team for producing this chart that compares the draft upcoming year's budget to the latest forecasts of previous year revenue and expenses. This has been requested for many years and has been much needed so that community members are able to evaluate projected spending to the actual needs of the previous year.

We have three questions related to this slide, one that is similar to those asked under Slide 14: 1) is the plan still to transfer the recovered historical new gTLD costs into the Reserve Account? 2) If so, when will the historical costs estimated for FY14 be deposited into the Reserve Account? 3) Is there an estimate as to when the Reserve Fund will reach the Board's targeted amount?

We note: The FY14 ICANN Operations budgeted revenue (excluding new gTLDs) increases 15.4% over the FY13 forecast while expenses increase 23.8%; this still leaves \$3,659,000 in revenue over expenses. We have several concerns in this regard: 1) A 23.8% year over year increase is very large; 2) the fact that expenses are increasing at a year over year rate of 8.4% more than revenue and there is still over \$3.6M in excess revenue makes us wonder whether ICANN registry and registrar fees are too high; 3) the fact that revenue is high should not be a license to spend more. At a bare minimum, explanation should be provided regarding these concerns.

Slide 20, FY14 Draft Operating Plan & Budget vs. FY13 Forecast – Revenue

Noting that the FY14 Budget predicts revenue from Registries and Registrars to be \$76,592,000, 94.4% of total FY14 operations revenue, it would be helpful for the GNSO community to know the amount of estimated expenses planned in support of the GNSO in general and specifically registries, registrars, registrants and new gTLD users. In addition, it would be helpful to know the amount of estimated expenses planned in support of the RIRs and ccTLDs. This used to be

provided but is no longer and no adequate rationale was communicated. The RySG believes that providing this level of detail is a transparency requirement that those who pay the fees deserve.

Slide 21, FY14 Draft Operating Plan & Budget Variance Analysis – Revenue

The explanations for revenue variances compared to the FY13 Forecast are very helpful, but we note that there is no explanation for the \$37,000 increase for ccTLDs. Perhaps the scale of the increase warranted no further explanation? Regardless, the more important question that should be answered here is what the community should expect going forward with regard to ccTLD contributions. The ccNSO has been subsidized by gTLD fees for many years and there has been lots of discussion about this changing but no significant changes have ever materialized. In fact, ICANN lowered its FY14 target for ccTLD contributions, and it rarely received the full budgeted amount over the past several years. It seems to us that the gTLD community deserves information in this regard. Is there some reason why gTLD fees should be used to subsidize ccTLD support? Is it not reasonable to expect the ccNSO to be relatively self-supporting?

Slide 22, FY14 Draft Operating Plan & Budget Variance Analysis

As previously stated, the RySG appreciates the variance analyses that are provided in the Operating Plan and Budget. They provide important information regarding revenue and spending trends from one year to the next. But in some cases more detail is needed, especially when the variances are large. For example, the variance shown for Professional Services under the category of Other Variances is -\$1,861,000, which is a significant decrease. We request that notes be provided as done elsewhere to explain the main causes of variances that not obvious or explained elsewhere (e.g., personnel, meetings); this could be accomplished via written notes and/or by providing detailed breakouts of variances by categories.

Slide 23, Draft Operating Plan & Budget Headcount by Function *

Some of the groups on this slide are self-explanatory; others are not. We request that at least the following groups be defined: 02 – Strategic Comm; 03 – GSE; 06 – DNS Industry; 08 – Operations; 09 – Technical functions; 10 – Org support.

Slides 28- 32, Draft Operating Plan & Budget – AtTask *

We appreciate the increased detail that is provided in the AtTask system, but it seems clear that only a subset of that detail was made available to the community. Budget detail appears to be only provided down to the program level. Particularly for larger programs, detail about the various projects and their associated budgeted expense amounts are needed to allow for an adequate review of the budget. This is critical as ICANN shifts to a “matrix” operating structure and initiatives are handled by cross-functional teams.

We provide some examples in our comments below for slides 30 and 32, but we request that project detail be made available for all programs. In fact, it would also be very helpful if

information or a tool was provided to help community members navigate the AtTask information. As one small example that is near to our hearts, where would the cost of Registries Stakeholder Group support be found in the budget? In exploring the AtTask spreadsheet provided, we were unable to find that.

Slide 30, Draft Operating Plan & Budget – AtTask *

We note that this slide provides budgeted goal and portfolio expense amounts for the Operations Excellence objective. In that regard, we would like to call attention to one of the programs under the Effective Business Operations portfolio: Other Programs for Effective Business Operations. \$6,795,000 is budgeted for this program, which amounts to 44.0% of the total portfolio budget. As far as we could find in the AtTask spreadsheet provided with the public comment documents, no further detail is given for this program. What is this program? It is way too large to be shown without further breakdown both in terms of the projects it includes and the dollar amounts associated with those projects. We assume that there is a place in AtTask where the project detail can be found and request that it be provided. Without it, it is not possible to perform a competent review of the budget.

Slide 32, Draft Operating Plan & Budget – AtTask *

We note that this slide provides budgeted goal and portfolio expense amounts for the Multi-Stakeholder Model Evolution objective. In that regard, we would like to discuss two of the programs under the Organizational Reviews portfolio and two under the Support Policy Development Efforts portfolio.

As can be seen on the slide, the Organizational Reviews portfolio comes under the Evolve SO/AC Structures. Looking further into AtTask, two of the programs and their budgeted amounts are: the GNSO Review with \$0 budgeted; Structural (Organizational) Reviews Management with \$199,589 budgeted, which amounts to 100% of the amount for this portfolio. In other words, there are no funds budgeted for any of the specific reviews such as the GNSO Review, even though the GNSO Review is expected to start in FY14. Explanation is requested on this.

As is also clear on the slide, the Support Policy Development Efforts portfolio is under the Optimize Policy Development Efforts goal. In AtTask, two of the programs are: GNSO Policy Support with a budget of \$80,831 (1.6% of the portfolio expenses); SO Policy Development Efforts with a budget of \$2,063,662 (40.9% of the portfolio expenses). We assume that most GNSO policy support will be funded out of the SO Policy Development budget; is that a correct assumption? In the case of the SO Policy Development Efforts, the budgeted amount is way too large to be shown without further breakdown both in terms of the projects it includes and the dollar amounts associated with those projects. As stated earlier, we assume that there is a place in AtTask where the project detail can be found and request that it be provided. Without it, it is not possible to perform a competent review of the budget.

Slides 35-36, Draft Operating Plan & Budget – Community Support Requests *

As communicated in the Operating Plan & Budget webinar held on 15 May, there is an asterisked note at the bottom of slide 36 that refers to services that are already provided in-kind but there are no asterisks shown for any of the special budget request line items. Please update the table on these two slides to identify the items that will be provided as in-kind services.

Slide 40, New gTLD Program – Operating Expenses

The current estimate for full program expenses as of April 2013 for Pre-delegation testing is \$24,303,000. The RySG suspects that this could be reduced significantly if duplications in the process were eliminated. There is a fairly limited number of backend registry service providers who will bear the bulk of the pre-delegation testing requirements.

We are quite sure that other savings could be achieved by eliminating unnecessary duplication of efforts.